



JOHN CHIANG
California State Controller

February 11, 2008

President Rob Feckner, Board of Administration
Chair Charles Valdes, Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Dear Messrs. Feckner and Valdes:

Since 2004, the Board has been exploring ways to consider our investments and the capital markets in which we operate in light of the now settled realities about global climate change. Our goals have consistently been to achieve positive financial returns, while fostering energy savings, sustainable growth and sound environmental practices. We have a strong track record of mobilizing financial capital in innovative ways, consistent with the highest fiduciary standards. We have been leaders in the Investor Network on Climate Risk and I am committed to continuing our work on these positive initiatives that include:

1. We have successfully made private equity investments through the AIM Environmental Technology Program;
2. We have committed to a real estate investment strategy that incorporates environmental standards;
3. We have hired public market investment managers who are managing stock portfolios that use environmental screens; and
4. We committed to a Corporate Governance Environmental Strategy.

While I look forward to continued reports from our staff on the first three of these initiatives, I would like to work on our Corporate Governance Environmental Strategy. We initially committed to joining the Carbon Disclosure Project, joining the Investor Network on Climate Risk, improving data transparency (with a particular focus on the auto and electric utility sectors) and engaging with companies that we own that fail to disclose environmental data or do not meet a pre-determined minimum standard. I would like to focus on getting the companies we own to disclose the material climate risks that could significantly impact our investments. I believe that to act as prudent investors, we need more data about environmental risks and opportunities impacting the companies in

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our public equity portfolio. I respectfully request that the Investment Committee place on the agenda the following two proposals to improve our Corporate Governance Environmental Strategy:

1. I request that we consider amending the CalPERS Corporate Governance policy to incorporate by reference the 14 point Ceres Corporate Governance Checklist. This checklist is being used by members of the Investor Network on Climate Risk to evaluate the best practices of companies in various sectors and as "best practice" guidance on how to vote on proxy resolutions focused on climate risks and disclosure. (Please see the attached Checklist.)
2. I also request that staff work with other investors in the Investor Network on Climate Risk to develop and implement a survey of public equities' investment managers regarding their ability to evaluate climate risks and opportunities of the companies in which they invest. We will ask Ceres to analyze the results of this survey and our staff will report the survey results to our Board on the best practices of investment managers so that we may consider this information in our manager reviews and requests for new managers.

I look forward to working with you and staff to prepare these two proposals for full consideration by the Investment Committee.

Sincerely,



JOHN CHIANG
California State Controller

Enclosure(s)

cc: Members, Investment Committee
Fred Buenrostro
Russell Read

Climate Change Governance Checklist

Board Oversight

1. Board is actively engaged in climate change policy and has assigned oversight responsibility to board member, board committee or full board.

Management Execution

2. Chairman/CEO assumes leadership role in articulating and executing climate change policy.
3. Top executives and/or executive committees assigned to manage climate change response strategies.
4. Climate change initiatives are integrated into risk management and mainstream business activities.
5. Executive officers' compensation is linked to attainment of environmental goals and GHG targets.

Public Disclosure

6. Securities filings disclose material risks and opportunities posed by climate change.
7. Public communications offer comprehensive, transparent presentation of response measures.

Emissions Accounting

8. Company calculates and registers GHG emissions savings and offsets from operations.
9. Company conducts annual inventory of GHG emissions and publicly reports results.
10. Company has an emissions baseline by which to gauge future GHG emissions trends.
11. Company has third-party verification process for GHG emissions data.

Strategic Planning

12. Company sets absolute GHG emission reduction targets for facilities, energy use, business travel and other operations (including indirect emissions).
13. Company participates in GHG emissions trading programs – up to 30.
14. Company pursues business strategies to reduce GHG emissions, minimize exposure to regulatory and physical risks, and maximize opportunities from changing market forces and emerging controls.